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Sam Laird (2012), ***A Review of Trade Preference Schemes for the World's Poorest Countries; ICTSD Programme on Competitiveness and Development***; Issue Paper No. 25; International Centre for Trade and Sustainable Development, Geneva, Switzerland, ISBN: 1995-6932 Available from http://ictsd.org/downloads/2012/10/a-review-of-trade-preference-schemes-for-the-worlde28099s-poorest-countries.pdf

The origin of this study lies in the concerns of many observers about the relatively weak trade performance of the least developed countries (LDCs). The performance has been disappointing not only to the growth of global trade but also in relation to the performance of many developing countries. There is a serious danger of marginalization of LDCs in global trade, and that LDCs will not take advantage of potentially significant contributions of trade to domestic growth and to the elimination of poverty.

These concerns are not by any means new, and they have been addressed through various global and regional initiatives. The initiative discussed in this report refers to the so-called Duty Free-Quota Free (DFQF) schemes allowing LDCs DFQF access for essentially all of their exports.[1]Given the disappointing performance of LDCs in global trade, it is; therefore, legitimate to ask what has been the impact of the schemes. The study provides an extensive and interesting discussion of the schemes and provides a convincing answer to the question.

The study begins with a brief history, rationale and legal basis for DFQF schemes, an overview of the preferential trade schemes in favor of LDCs by both developed and emerging countries, the key features of the schemes, and coverage by tariff lines and trade, tariff treatment and utilization of preferences. It then provides an extensive discussion of rules of origins and their links to the DFQF schemes. An important element of the study is the analysis of the effects of the schemes on the trade performance of LDCs. The study is concluded with a discussion of future prospects for the schemes.

[1]LDCs have also benefitted from various other measures receiving a special and preferential treatment for a wider coverage of products and deeper tariff cuts than developing countries and allowing significant concessions under the multilateral trading system of the WTO. These concessions are not the subject of this study.

Scope and methodology

Before discussing the actual findings, it may be useful to note the scope and the methodology used in the study.

1. *Concept of "preferences*". The study only deals with one specific aspect of "preferences" from the set of the so-called "special and differentiated (S&D) treatment" of LDCs – namely their different access to foreign markets in comparison to the access of other exporting countries. The concept of preferences does not include, for example, the notion of domestic preferences of LDCs to the protection of domestic industries or the speed and pattern of implementation of international commitments – other important aspects of S&D treatment.

2. *Coverage of countries.* The study analyses the implementation of preferential trade schemes of seven major markets - Canada, China, European Union, India, Republic of Korea, Japan, and the United States. The coverage is, therefore, not complete - it excludes countries such as Australia, Brazil, Russian Federation, Mexico, etc.

3. *Definition of LDCs.* The coverage of countries which benefit from DFQF access to foreign market may vary from a scheme to scheme but most schemes seem to define LDCs on the basis of the list of LDCs established by the United Nations arriving at the total of 48 countries in 2012.[2] A specific issue related to the definition concerns the graduation of countries from the program. Most of the schemes appear to avoid any description of graduation from the schemes.

4. *Measuring the impact of preferences*. The impact of the preferential schemes is assessed from "modeling" exercises. These have been carried out elsewhere, and their results are reported in the study. Unfortunately, the study does not provide an explanation of the methodologies used in the modeling exercises, and this makes it difficult to assess the results. In addition, the impact is studied by comparing the results of two simulations - the impact of DFQF schemes on LDCs' exports and the impact on LDCs' exports under the hypothetical scenario of successful conclusion of the Doha Round (mostly based on NAMA only).

What do the simulation studies show?

The simulation studies show that the DFQF schemes have tended to improve the LDCs' trade performance – both in terms of growth and diversification of exports (both in terms of products and destinations). The positive contribution is not surprising. By definition, DFQF schemes eliminate remaining restrictions on imports from LDCs and generate new exports incentives for

[2] The full list can be found here http://www.unohrlls.org/en/ldc/25/.

LDCs. However, the impact of DFQF scheme varies from LDC to LDC and from scheme to scheme. Potential gains for LDCs from future improvements to DFQF schemes are quite small in Canada, China,the European Union and Japan. However, the gains could be quite sizeable in the Indian, Korean and United States markets mainly due to much lover product coverage of the schemes. While the large majority of imports from UN-designated LDCs already enter Canada, China, the European Union and Japan duty-free, only 68.5% of United States imports from LDCs do so. The corresponding percentages for India and Republic of Korea are 5.7% and 39.1%, China 85% (in 2011). The most significant of these gains would benefit textiles and clothing exports to the United States market from Bangladesh, Cambodia and Haiti. It is possible that further gains couldbe made by relaxing rules of origin, or using Aid for Trade to help LDCs meet standards in major export markets. Other studies cited in the report show that improving their schemes would have a minimal impact on preference-granting markets.

A different look at DFQF schemes

The story of Mr. Laird briefly summarized above is very plausible but there is an equally interesting but perhaps more intriguing question one should ask about DFQF schemes - w*hy have not the schemes played a more positive role for LDCs export performance?* Even though the question was not a subject of his analysis, Mr. Laird' study provides ample background to answer this question. Drawing on the study and my own observations, one can suggest several answers to the question:

1. *Reduced industrial protection.* The level of industrial tariffs in major export markets of LDCs have been dramatically reduced (see for example pp.45 – 54 of the study). The average industrial tariff level in the United States, European Union and Japan is now 2%-3%, and this has greatly reduced the margin of tariff preferences.

2. *Border vs. inside-the-border measures*. DFQF schemes mostly address issues of border measures – tariffs and quotas. However, a far bigger problem for LDCs exporters may today be inside-the border measures such as TBT and SPS. The fact that many African countries are unable to effectively use the United States' concessions under AGOA is most likely due to the restrictiveness of SPS. The simulation studies noted above will not capture the effect of these measures.

3. *Rules of origin.* As shown by Brenton, quoted in the study, countries are often hesitant to request preferential access. As noted by Mr. Laird, t*he prime suspects for this low level of use "are rules of origin, including the restrictiveness of the requirements on sufficient processing and the costs and difficulties of providing the necessary documentation. In Brenton's view, more simple rules of origin would enhance the impact of EU trade*

preferences in terms of improving market access and in stimulating diversification toward a broader range of exports." (p.45)

4. *Global market and supply conditions* – have dramatically improved over the last 20 years as far as LDCs are concerned. The emergence of new economic power houses of China, India, Brazil and Russian Federation has generated a formidable boost to world demand for commodities which are typically extracted in LDCs. This has put upward pressure on world commodity prices and stimulated increased extraction of raw materials. Moreover, growth of global markets has resulted in increased foreign investment into LDCs production capacities. What all of this means is that the focus on better market access in assessing the impact of DFQF schemes may not be enough. As Mr. Lair points out, the improved export performance could have also come from (1) increased competitiveness of LDCs (due to better policies and their implementation, infrastructure etc.) and (2) more favorable market conditions leading to improved conditions for LDCs exports and higher export prices; and (3) moreover, the effect of supply and demand factors maybe independent or interrelated. As Mr. Laird (and UNCTAD) point out - "*…in the longer term, for many items supply-side factors rather than limitations on market access might be the most important constraints and needed the urgent attention of the international community. Even the most generous market access enhancements alone may not be sufficient to strengthen the links between trade and development in the poorest countries in the world."* (p.45)

Impact of Doha Round negotiations

In order to strengthen his conclusion, Laird also compares the DFQF outcomes with those that might have been obtained through successful conclusion of the current Doha Round negotiations. He finds that under some Doha Round scenarios there would be a net decline in LDCs exports to the Canadian, European Union and Japanese markets due to preference erosion, with Bangladesh as the major loser. In the United States, there is almost no change in the aggregate, but Bangladesh and Cambodia would gain significantly, while substantial losses estimated for Lesotho and Madagascar. The estimates also show useful, albeit modest, gains for LDCs exports to the Chinese, Indian and Korean markets.